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Background and Business Relationships of Envirosure Management Corporation

Statement of
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Office of Special Investigations

Before the
Subcommittee on Environment, Energy,
and Natural Resources
Committee on Government Operations
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

We are pleased to appear before you today. At your request, we investigated the background and business relationships of Envirosure Management Corporation, a waste-management firm active in the disposal of PCBs, polychlorinated biphenyls. We found a number of business relationships between Envirosure and individuals and companies in the Buffalo, New York, and Kansas City, Missouri, areas, which I'll describe today.

First, some background on Envirosure. Envirosure Management Corporation was incorporated in July 1984 and is based in Buffalo, New York. Its customers have included commercial and industrial companies, as well as government agencies, such as the Defense Logistics Agency, DLA. In fact, at one time DLA generated more than 60 percent of Envirosure's business.

According to Envirosure's filings with the Securities and Exchange Commission, Envirosure's chairman of the board, Norman Dobiesz, and its president, David T. Ryan, helped organize Envirosure. We requested interviews with Dobiesz and Ryan to obtain information concerning the company's background and financial ties, but both declined to talk to us on the advice of their attorney. Law enforcement sources advised us of intelligence information they had received alleging that an

individual named James H. Williams secretly provided Dobiesz with the capital to form Envirosure.

Prior to Williams allegedly providing the capital, he and his business partner, Lawrence Reger, were principals in a conglomerate in western New York called Mader Capital, Inc., which had a number of waste-disposal subsidiaries. In January 1983, they sold the subsidiaries to Browning Ferris Industries, BFI, and entered into a five-year noncompetition agreement. Soon after, according to the intelligence information our sources received, Williams allegedly broke the noncompetition agreement by loaning Norman Dobiesz $1 million to establish Envirosure.

Allegedly, Williams was repaid the loan through a trust created for his daughter through Williams' brother-in-law, Roger Bennett. Bennett served as Envirosure's vice president for three years, 1984 through 1987. We learned that in 1984 Dobiesz sold over 17 million shares of Envirosure stock to a trust for Williams' daughter, for which Bennett was trustee. By the time the stock went public in 1985, the value of the trust's stock had increased by more than $800,000.

Williams denied to us that his daughter's stock was repayment for any loan to Dobiesz. He stated that he never loaned Dobiesz any money to start Envirosure. Further, he said that although he had been asked to invest in Envirosure, he

never had. According to Williams, before Envirosure stock went public, Dobiesz told him he needed financial backing to take the company public. Williams said he referred the matter to Bennett, who then purchased Envirosure stock for the trust.

Our investigation revealed a number of business and other relationships between Envirosure and Williams and Reger, who have been business partners for about 20 years. The following are eight of the relationships we found:

1. Williams became a consultant for Envirosure shortly after his noncompetition agreement with BFI expired.

2. Reger, Williams, and Williams' brother, Francis Williams, own the property where Envirosure's Buffalo, New York, headquarters is located. They also own the Niagara Falls property where an Envirosure subsidiary is located.

3. These properties are leased to Envirosure through Marc Equity Realty Associates, a company in which Reger and Williams are partners. In the past, Envirosure subleased portions of this property to a company of which Williams was a principal owner.

4. Marc Equity Realty Associates delivered a waiver to Envirosure for payment of its leases for the period ending August 1986.

5. Envirosure has used the services of at least two companies owned by Williams and Reger: East River Trucking and Williams' Sales.

6. An Envirosure stockholder, Clarence Rautenstrauch, who as of June 1987 owned seven percent of Envirosure stock, is employed in a Reger/Williams-owned company.

7. Roger Bennett, who as I stated earlier was an Envirosure vice president and brother-in-law of Williams, served as an officer in a number of Mader Capital subsidiaries.

8. Norman Dobiesz, Envirosure's chairman of the board, is a partner with Williams in a number of business ventures.

We questioned Reger and Williams about their relationships with Envirosure. Reger stated that his only interest in the company was through the fact that his company leased Envirosure

property. Williams indicated that his only interest was through the leases and the fact that his daughter owned company stock.

Williams further stated that he granted a waiver to Envirosure to prevent defaults on its leases because the company was having difficulty paying the rent at the time. He said that he had assisted Envirosure out of a desire to see the company succeed. He wanted Envirosure to continue to be able to lease the property and he wanted his daughter's stock to do well.

Mr. Chairman, I've detailed Envirosure's relationships with individuals and companies in the Buffalo, New York, area. At your request, we also investigated relationships between Envirosure and individuals and businesses in the Kansas City, Missouri, area. Before I close, I'd like to spend a few minutes addressing the relationships we discovered.

We found that Envirosure had a business relationship with two firms that operated out of the same address in Kansas City: PCB Inc., a company engaged in PCB-disposal, and C.B. Oil, Inc., a subcontractor used by PCB Inc. to process PCB-contaminated capacitors.

In 1985, Envirosure entered into a marketing agreement with these two firms. The agreement remained in effect for two years. Under the agreement, Envirosure served as the exclusive marketing

representative for the sale of all products and services of the two companies.

PCB Inc.'s owner, Jack Van Gundy, owned a number of other PCB-disposal firms, some of which Envirosure acquired in 1986 and 1987. These included Environmental Resources Management, Inc. of Nevada and Environmental International Electrical Services, Inc., or EIES. EIES operated a PCB-treatment facility in Kansas City, Kansas, and a PCB-storage facility in Kansas City, Missouri.

Several of Van Gundy's companies have repeatedly been cited by the Environmental Protection Agency, EPA, for failing to comply with PCB regulations. In fact, two of Van Gundy's companies were the subject of testimony on April 6, 1987, before this Subcommittee by GAO Senior Associate Director Hugh J. Wessinger. As GAO reported at the time, EPA issued both companies administrative complaints with total proposed penalties of almost $4 million for various violations. Both companies settled with EPA to clean and close their PCB-disposal sites and pay a combined $100,000 penalty.

We requested an interview with Van Gundy to discuss his background, ties to Envirosure, and involvement in the PCB-disposal industry. His attorney would not permit an interview.

The final relationship I'd like to address concerns Michael Cannova, an officer of C.B. Oil, Inc., which as I stated earlier was subject to the 1985 marketing agreement with Envirosure. According to information Van Gundy provided to EPA, Cannova also served as a vice president of sales for PCB Inc. Cannova's attorney would not permit us to talk to him. James Williams told us that he once loaned Cannova between $10,000 and $20,000. Williams stated that he had extended the loan at the request of Norman Dobiesz, and the loan had since been repaid.

Mr. Chairman, this concludes my statement. We will be pleased to respond to any questions you have at this time.